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Reconfiguring Digital Business Models to Enter the Japanese Market

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Abstract

Digitalization of products and services has led to situation where firms have to constantly reconfigure, adjust, and innovate their business models for new market conditions. In addition, when a firm enters a new foreign market, the environment, culture, local customer preferences, and other considerations might lead to the reconfiguration of the existing business model. However, recent business model studies provide very little insight as to how business models might change and evolve over time when a firm enters a foreign market. To improve our understanding of this phenomenon, we present a longitudinal study encompassing 10 years of a Finnish digital service provider's market entry experiences with the Japanese market. The empirical data is built on 13 in-depth face-to-face interviews conducted between 2011 and 2021. Based on the empirical data, we demonstrate how and why the case firm's digital business model changed over the time and how they found a successful business model to operate in Japan. The findings indicate that the case firm reconfigured their business model three times to find an effective model. The configurations were related to the service, value network, and revenue model elements of the business model. The findings also highlight that especially in Japan, networking based on personal relationships, ability to innovate new digital services based on customer requirements, and the capability to change the business model constantly play the key roles for surviving in the market. From a more general point of view, this indicates that firms cannot always apply the same business model in all markets. In many cases, there is also a need to adopt new business models for specific foreign markets.

Keywords: internationalisation, business model, business model innovation, Japan, Digital services, Platform, foreign market entry

1. Introduction

In the fields like software and other purely digital services, firms are commonly expanding their businesses to countries that provide huge market potential for their services (Bell et al., 2003; Ojala and Tyrväinen, 2007; Ojala, 2015). In general, firms apply a certain business model in their home country. When they internationalise, firms have to estimate how the same business model can be applied in a host country or the market area (e.g., in EU). In the most favorable situation, there is no need for changes in the business model, and in these cases, firms can save cost and resources that are needed to reconfigure the business model to a target country. However, in some cases changes to the business model are required and might become necessity for the foreign market entry (see e.g., Baber et al., 2021). This can be the case especially if a firm is entering to a market that is very attractive by offering a huge business potential, but operations in the country requires reconfiguration of the recent business model. This might be the case especially in the countries where the culture and the way of doing business differs greatly from the home country. However, current studies on internationalization of technology based new ventures provides only little guidance (see e.g., Baber et al., 2021; Casadesus-Masanell & Ricart, 2010; Rissanen et al., 2020; Sosna et al., 2010) how firms should reconfigure their business model when entering to a new location (Onetti et al., 2012). Based on this, the aim is to contribute to business model literature in the context where a firm internationalises and reconfigures its business model for the new geographical location.

Based on the above discussion, we investigate a Finnish digital service provider's market entry into the Japanese market and especially how the business model evolved during this process. As it is commonly viewed, Japan is one of the most attractive markets for digital services, and Finland, despite being a small country, has numerous innovative digital service providers. That being so, Japan is a very attractive country for Finnish digital service providers, yet also very distant, culturally and geographically (Ojala and Tyrväinen, 2007). This research setting helps us to make a detailed study of how and why the business model and related business model elements change, over time, when a firm reconfigures its business model during foreign market entry. This also answers the call for more studies on how new location impacts business models and their evolution (Onetti et al., 2012).

In this chapter, we first define the business model and identify the elements of the business model that are most relevant to this study. Thereafter, we review literature to better understand how and why business models might change over time. This is followed by a short discussion on how business models might impact a firm's foreign market entry. Next, we present the longitudinal case-study method used in this study. The method section is followed by description of the changes in the case firm's business model. Finally, we discuss research findings and present the conclusions of the study.

2. Business Models

The term "business model" is defined in several manners in the academic literature. One common characteristic of all these definitions is that they describe how firms create, capture, and deliver value to partners, customers, and other actors in their network. A very common definition used in the academic literature on business models is given by Osterwalder et al. (2005, p. 17-18) who define business models as follows: "A business model is a conceptual tool that contains a set of elements and their relationships and allows expressing the business logic of a specific firm. It is a description of the value a company offers to one or several segments of customers and of the architecture of the firm and its network of partners for creating marketing, and delivering this value and relationship capital, to generate profitable and sustainable revenue streams." Business model "thinking" can include planned decisions or merely application of a certain model without detailed planning and thinking. As explained by Chesbrough (2007, p. 12), "every company has a business model, whether they articulate it or not" and "at its heart, a business model performs two important functions: value creation and value capture".

Although a description of the business model delivers a rather static image, business models change and evolve over time as firms reconfigure business models while they react to changes in the market, costumer needs, or when they innovate new services or products. This has been covered also in business model innovation (BMI) literature that focuses on how entrepreneurs innovate new business models (see e.g., Baber et al., 2019a, 2019b, 2020a; Bohnsack et al., 2014; Cavalcante et al., 2011; Saebi et al., 2017). Recent studies have also found that business models might change when firms enter to new foreign markets (Baber et al., 2021). Internationalisation and new foreign customers might require new value networks, customization and localization of the services, consideration of local standards, regulations, and polices, etc. These all will impact how the current business model can be implemented in a new foreign market (Child et al., 2017; Ojala and Tyrväinen, 2006).

2.1. Elements of Business Model

A business model is commonly described to include various elements which actually form the business model and the way how a firm works (Ojala, 2016). Academic literature has recognised a number of different elements (Baber et al. 2021; Luoma, 2013). However, in this chapter, we focus on only the most relevant business model elements for this study. These elements are: 1) Service (or product), 2) Value Network, and 3) Value Delivery. Changes in these elements are interactive, so that a change in one element might lead to chance in one or several elements (Baber and Ojala, 2020; Kindström and Kowalkowski, 2014). For example, new customer requirements (locally or globally) might impact how a service is implemented. New characteristics of the service might lead to new ways to deliver it and consequently lead to changes in the Value Network (Baber, 2020). Further, by studying business models based on elements, we can form a better understanding of the interactions between the environment where the firm operates and the firm's internal development. Below we describe three business model elements that we apply in this study.

Firstly, the Service element (also called the product element in some studies) refers to a firm's innovations that it develops, markets, and sell (Baber, et al., 2020a). Further, the Service element may indicate how a firm's service is related to other services or products in the market and how it impacts their evolution (Adomavicius et al., 2008; Arthur, 2009). When a firm expands its business to other industries or foreign markets, the service commonly requires customization and/or localization based on the needs and requirements of customers, authorities, regulations, and so on (Ojala and Tyrväinen, 2006). The Service element maintains a very important role in the business model as it largely defines how other elements will be formed. It also specifies largely who are the customers, partners, stakeholders, and other actors within the firm's network (Ojala and Tyrväinen, 2006; Osterwalder et al., 2005; Osterwalder and Pigneur, 2013).

Secondly, the Value Network element shows all the key actors that the focal firm interacts with when creating value. That is, the Value Network forms a broader ecosystem around the firm (Chesbrough, 2007) including customers, regulators, partners, and others that are involved in the creation of value. To build the Value Network, firms have to understand the value of their service, meaning how it benefits other members within the Value Network who contribute to value creation (Walter et al., 2001; Zain and Ng, 2006). This element also provides an understanding of how and why firms act within the same Value Network (Ojala and Helander, 2014; Osterwalder and Pigneur, 2010; Teece, 2010). Depending on the service, the Value Network might vary greatly. If a firm develops and markets services directly to the end users without outsourcing any activities, the Value Network remains very simple. However, nowadays firms are very specialized and might represent only a smaller (but important) part of a larger service within an ecosystem. For instance, digital platforms form a service that are commonly enabled by large group of firms acting in the same Value Network (Autio, et al., 2017; Ojala and Lyytinen, 2022).

Thirdly, the Value Delivery element explains how the actual value is delivered between different actors in the Value Network (Osterwalder et al., 2005). It demonstrates how and by which routes the focal firm delivers the service and how and what kind of value different partners exchange (Al-Debei & Avison, 2010; Osterwalder & Pigneur, 2010; Teece, 2010). This value can be related to the focal firm's service in the form of financial benefits or knowledge and know-how (Ojala and Helander, 2014). At a macro level, the Value Delivery element can be a subset of the Value Network, however, examined in greater detail, it can specify the actions and partners needed to reach customers and end users.

3. Methodology

To better understand the evolution of business models in the international location, Japan, we applied a longitudinal single-case study method (Yin, 2009). The longitudinal approach was selected as it enables following, in real-time, how business operations and related business models evolve. The case method also makes it possible to understand and track cause-and-effect relationships (Eisenhardt, 1989; Pettigrew, 1990). We also studied a rather unexplored phenomenon, evolution of a business model within a foreign market entry (Onetti et al., 2012). In this context, a single-case study offers detailed understanding of the processes involved (Doz, 2011; Langley et al., 2013) as a firm's business models develop.

3.1. Data Collection and Analysis

The empirical data for this study was collected between 2011 and 2021. That is, the data collection started the same year that the case firm started their operations in Japan. The interviewed persons include all the key players involved with the market entry to Japan and business model development there. We interviewed the top management team (Chief Executive Officer (CEO), Chief Operating Officer (COO), Chief Technology Officer (CTO), Art Director, and Vice President of Sales) to build an overall understanding of the firm's business, business model development in general, international operations, and interest toward the Japanese market. To acquire more detailed understanding of the business activities in Japan, we interviewed the case firm's representatives in Japan as well as their Sales Manager operating in South-East Asia. The number, date, and length of the interviews between 2011 is displayed in Table 1.

Table 1. People interviewed.

Person interviewed	**Time of the interview(s) (month/year)**	**Duration of the interview(s) (hours/minutes)**
CEO (co-founder)	4/2011	1:10
	4/2017	1:15
	2/2018	1:20
	1/2019	1:00
	5/2021	2:15
	11/2021	0:50
COO (co-founder)	4/2011	1:00
CTO (co-founder)	3/2013	1:10
Art Director (co-founder)	6/2011	0:55
Vice President, Sales	8/2011	1:00
Sales Manager, South-East Asia (in Singapore)	12/2014	0:45
Representative in Japan (Sales)	5/2012	1:00
Representative in Japan (Technical Director)	5/2012	1:10

We conducted 13 interviews for this study lasting from 45 to 135 minutes. We had eleven face-to-face interviews (eight in Finland, two in Japan, and one in Singapore) and held two Zoom interviews in 2021 because of Covid-19 pandemic restrictions. In the first interviews, we focused on the firm's history and early development of the business model. Thereafter, our research questions focused more on internationalisation and business model evolution in general and especially in Japan. Two last interviews (in 2021) with the CEO were conducted to summarize the business operations in Japan and clarify inconsistences in the previously collected data.

We took notes and recorded all the interviews. All the interviews were transcribed verbatim and reviewed. Over the years, we also developed good relationships with the case firm representatives. This enabled us to delve into confidential data that would be otherwise difficult to collect. In addition to these face-to-face interviews, we went through a large amount of secondary data to confirm dates, events, and other facts while validating the collected primary data. Secondary data was also used to find new insights from various point of views. This secondary data was based on the firm's websites, social media pages (LinkedIn, Facebook, Instagram), news, magazines, and advertisement material. Inconsistences that emerged from secondary data and new insights were clarified and discussed either in interviews or by using email as a mode of communication. This also helped us to minimise the retrospective bias (see e.g., Huber & Power, 1985).

During analysis of the data, we followed mainly advice by Miles et al. (2013) regarding data reduction. That is, we reduced data so that we had only row data related to the topic of this study. This was conducted by first identifying all important events related to the market entry to Japan and business model development there. Second, we organized the data into chronological order to identify potential causal links and develop more comprehensive understanding among various actions in the Japanese market and business model development. These steps helped us to organize and comprehend the data so that we were able to write a case narrative illustrating the case firm's operations in Japan.

3.2. The Case Firm

The case firm, Vivo (pseudonym), was established in 2006 in Finland. It offers digital services based on their own cloud service and which can be used to visualize customers' physical products (e.g., bookshelves, sofas, and other home furnishings) as three-dimensional (3D) digital models. Their main target groups for the service are furniture manufacturers, furniture retailers, home improvement and design firms, and firms offering renovation products and services. Basically, the service can be used as a sales tool by customer firms that interact with retail users. The firm's size has varied over the years between 10 and 50 employees. Currently they employ around 40 staff members. Vivo maintains offices or representatives on four continents and has a global clientele.

4. Foreign Market Entry and Business Models in Japan

Generally, firms in all sizes and all industries tend to enter those markets that provide good business potential for their products and/or services (Bell et al., 2003; Dunning, 2001; Ojala and Tyrväinen, 2007). However, factors like geographical distance and cultural distance might reduce the attractiveness of large markets, or at least, make business operations more challenging in distant markets (Blum and Goldfarb, 2006; Dow and Karunaratna, 2006; Gooris and Peeters, 2014; Ojala and Tyrväinen, 2007; Ojala, 2015). According to Ojala (2015, p. 826), geographic distance in this context refers to "…physical separation between one location and another, typically involving the space between the home of a firm and the foreign location in which it is selling, or exploring possible sales", whereas cultural distance is related to "…differences between groups of people regarding values, communication styles, and stereotypes" (Ojala, 2015, p. 827).

Although Japan is a very distant country (geographically and culturally) from Finland, Vivo saw it as a very interesting market for several reasons. The market size was seen as offering a huge growth potential for their digital services. Further, it is widely thought that Japanese consumers are very accepting of new technological solutions, tools, and services and this attitude makes the market very interesting. Accordingly, Japan entered their focus, in addition to Scandinavian markets, soon after the establishment of the firm. However, this foreign market entry was not easy and success required several changes over the years to the original business model as elaborated below.

4.1. First Business Model 2011-2013

Vivo started their operations in the Japanese market in 2011. The first market entry was more a coincidence than a planned or intentional establishment of foreign operations in Japan. In 2010, one of Vivo's employees moved to Japan and started to do remote work from Japan for Vivo. One year later, in 2011, he established his own firm for the purpose of bringing foreign technological innovations to Japan. He started to represent Vivo's digital service in Japan among other imported products and services.

At that time, Vivo's business in Japan was based on the same concept used in Finland. They provided a digital sales tool for furniture manufacturers and furniture retailers so that they could demonstrate their offering in 3D form and show how a furniture item looked from different angles, how different modules could be combined, and so on. However, the main problem at that time was that even though the Service element existed, the Value Network and delivery elements of the business model were lacking. That is, the representatives of Vivo in Japan were not able to develop reliable relationships with potential partners, delivery channels or end-customers to establish the value network. The CEO explained this as follows:

"Even if these guys [representatives in Japan] were really good and knew the service, they had a lack of networks within the target industry. They were also very young, so it caused difficulties to establish reliable networks."

Based on this first "trial" to enter the Japanese market, only one direct customer was found. As Figure 1 demonstrates, there was a lack of local distributors who knew the market. Further, only one customer was reached even though there was a vast number of potential customers in the market. Further, because the digital service in Japan was exactly the same as what they had available in other countries, there was a clear need for more customized services that targeted especially the Japanese market. However, at that time, Vivo was not capable of customizing content provision for the market needs of Japan, for instance by using a value-added reseller. Based on the first business model, Vivo learned that in Japan, 1) there are very high-quality requirements that requires customization of the service, 2) there is a need for Japanese language skills in sales and marketing processes, and 3) it is important to develop personal relationships with customers.

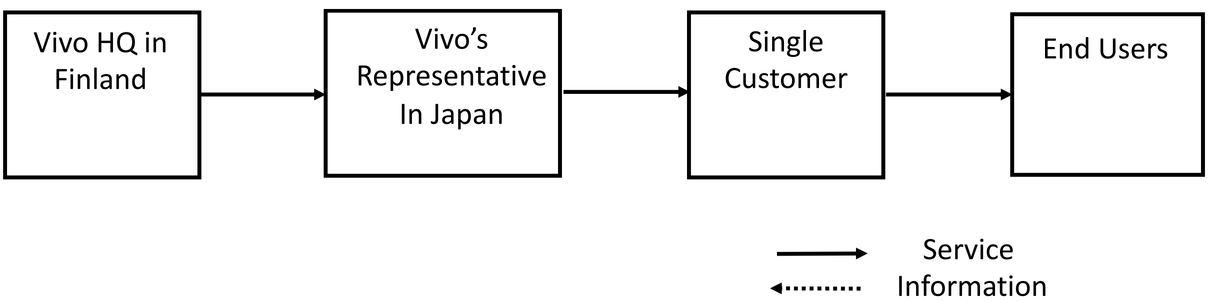

Figure 1. First business model in Japan

4.2. Second Business Model 2014-2015

Because of unsuccessful first business model, Vivo recruited an expatriate in Singapore (with some personal contacts in Japan) that replaced the first representative operating in Japan. The idea was that the expatriate in Singapore would take care of business activities in Australia and Japan. The aim was to use the expatriate to find and establish a Value Network including delivery channels, value-added resellers, furniture retailers, content developers, and end-users in Japan. However, the expatriate was not able to handle this task and expansion of the operations in Japan without being inside the market proved impossible. For this reason, the contract with the expatriate was terminated in 2015. However, during the expatriate's work for Vivo, he identified a Japanese consultancy firm. The consultancy firm was run by a senior Japanese manager with in-depth knowledge of Japanese IT-markets and with very good personal networks among different actors in the market. The firm itself was not a reseller but started to look for suitable resellers for Vivo's digital service. The CEO of Vivo explained this as follows:

"I'll have to emphasize that you have to have a contact that you can use to get into the market, otherwise the successful market entry is impossible. The fact that we found this person [with a consultancy firm] and the fact that he believed us, was the way how we finally get into the market."

The development of the Service element of the business model also helped attract the interest of the consultancy firm to the market entry. Vivo had just launched an iPad version of their digital platform with augmented reality (AR) functionality. These new features helped end-users to see for instance how the furniture looked and fit into their rooms before taking the decision to pay. Because of these new features, the Japanese consultancy firm saw the potential of digital service in the Japanese market. The second business model is demonstrated in Figure 2. As it can be seen from the figure, the customer found by Vivo's representative in the first business model became their direct customer who was dealt with from the headquarters (HQ). In this model, Vivo also started to receive better market information from the consulting partner. While this second model aided Vivo in exploring potential customers, none were converted into actual customers. Thus, this model was of necessity converted into the third model described next.

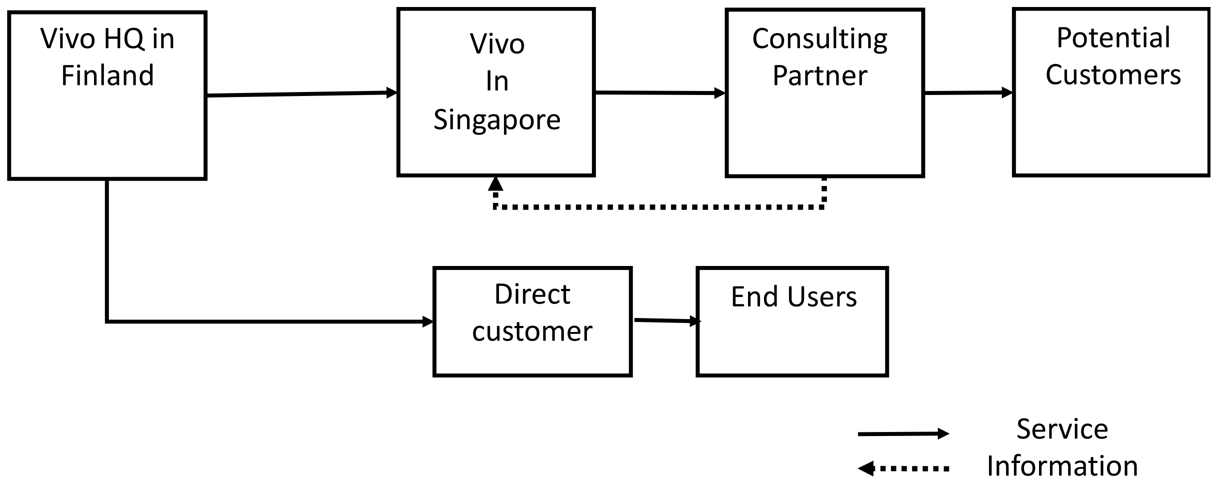

Figure 2. Second business model in Japan

4.3. Third Business Model 2016 Onwards

Changes to the Service element and the capability to expand the Value Network and Value Delivery enabled growth in Japan. The consultancy firm is currently working as the country manager and they are further developing the distributor and reselling networks. From 2016 Vivo gained a partner who worked as a value-added reseller (VAR) and was able to integrate new content into Vivo's platform. This activity had been performed previously only in Finland. Content development in Japan allowed conservation of resources and made it possible to tailor the content better for the Japanese market. This tailoring boosted content development significantly as most of the customers had their own content, such as furniture or renovation materials, that they modelled for the platform. As a result, since 2016 Vivo has had a functioning Value Network in Japan where the service creates value for different partners, including additional B2B partners and end-users. The third business model (see Figure 3) also included updates to the Service element as Vivo launched new services that were targeted first to the Japanese market and which then expanded into other markets. They developed High-Quality Rendering (HQR) and virtual show rooms first for the Japanese market as there was an enquiry from the customer side for these kinds of services. These changes enabled Vivo to expand their business from 3D modelling of furniture to modelling of different renovation solutions as well as interiors. Vivo has also expanded their service portfolio. Also, other new technologies, like Virtual Reality (VR) solutions, have opened markets in Japan, even though these innovations have not been as successful in other markets, such as Europe. As it can be seen from Figure 3, there are also several routes that help Vivo to receive feedback also from end users. Vivo's CEO commented on this as follows:

"In Japan, people have much more willingness to take new technologies into the use compared for example to Finland or Europe. In Europe, constructors are wondering how to use VR in different projects, and we have not sold much VR based services there. However, in Japan, all customers are eager to use VR and other new technologies. Even old ladies there use VR helmets to see how their new house will look like."

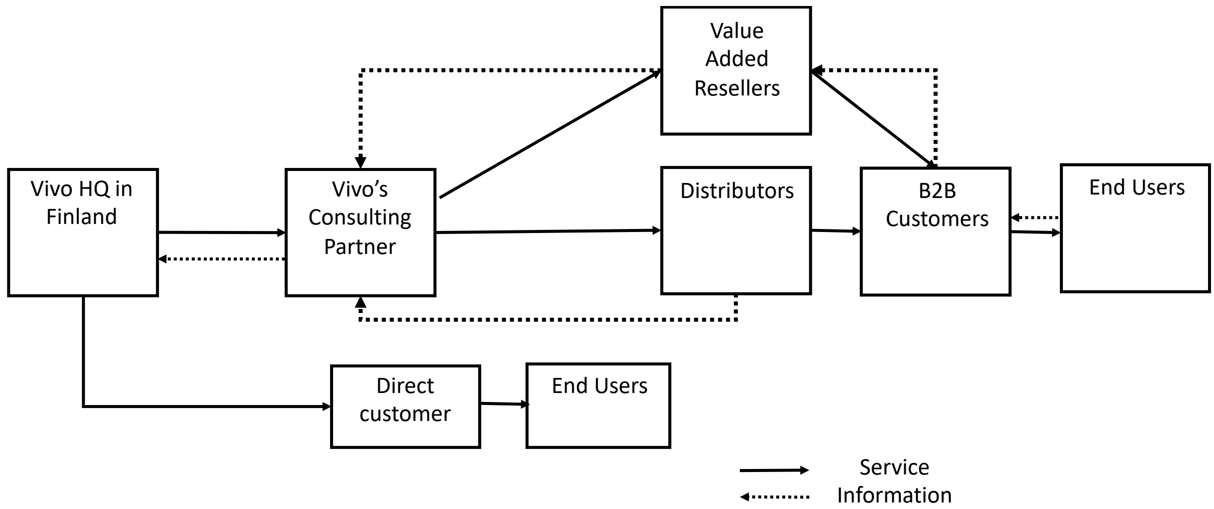

Figure 3. Third business model in Japan

5. Discussion

In this section, we discuss the empirical findings and especially how and why different business model elements changed during the foreign market entry in Japan. Related to the Service element, the basic platform service for furniture retailers developed further when Vivo added new functionalities like connectivity with iPad and AR integration. Even though the platform service was designed so that there were not many country specific elements that required localization and/or customization (cf. Ojala and Tyrväinen, 2006), they developed extensions for their platform based on the needs of Japanese customers (like HQR). These extensions helped to gain access to the market and evoke customers' interest toward Vivo's digital platform. These changes to the platform showed that Vivo's partner cared about and was equipped to understand the local market. Through the partner, Vivo received new ideas from their Japanese customers and end users. Vivo was able to utilize these ideas in their service development for Japanese market and also globally.

For Vivo, the Value Network element and its development further created the biggest challenge to growth business in Japan. Development of the Value Network required, in addition to the excellent digital service, networking with the right persons. It became evident that this was exceptionally hard when relying on non-Japanese persons. This networking challenge was also the main reason why the two first business models failed. Only the third business model, where Vivo was able to use the experience of the Japanese partner (consultancy firm), with in-depth knowledge of the industry, opened up the market. This contact helped to find key customers and expand the network of various partners where VAR was the most significant enabler for success. This finding contributes to previous business model literature that highlights the evolution of Value Network based on the attractiveness of the product and the value it brings to different actors within the network (e.g., Ojala and Helander, 2014; Osterwalder and Pigneur, 2010; Teece, 2010). However, our findings demonstrate that building a Value Network requires also the right personal relationships in addition to the value that the service brings. This is especially valid in the markets where personal relationships are highly valued such as in Japan (Nishiyama, 2000).

The Value Delivery element played a very minor role in Vivo's first and second business models as the Value Network was not fully developed. However, in the third business model, Value Delivery included, in addition to monetary value, many kinds of know-how and knowledge. Especially the value provided by the Japanese consultancy firm, the VAR, and distributors proved important providers of different kinds of knowledge about the market. Additionally, the VAR provided knowledge necessary to innovate in the overseas market and that innovation disseminated back to the headquarters in Finland and the established markets of Vivo in Europe. The flow of information was from users and B2B customers, to the VAR, to Vivo and Vivo headquarters. This kind of knowledge movement about user preferences and behaviors and process related to innovations in the foreign and home markets is less common than the usual dissemination from headquarters to target countries. More specifically, this knowledge was related to new business ideas, improving the existing service, and using different functionalities of the platform.

6. Conclusions

Based on our empirical findings, the successful market entry into the Japanese market was a long process for Vivo. It required reconfiguration of the business model over the years. Even though they had workable digital platform services that they were selling to several countries, all the business model elements required changes to operate successfully in Japan. However, the most critical element was creation of a Value Network that required personal relationship with a trustful actor in Japan. Thereafter, the characteristics of the service became critical. These characteristics required innovating with customers to customize the digital service for the market. After reconfiguring these two business model elements, it become possible to establish the Value Delivery element and successful business operations.

From theoretical point of view, our findings indicate the importance of personal network relationships (Chetty and Blankenburg Holm, 2000; Coviello, 2006) especially in the case where a firm is entering to culturally distant country. This finding indicates that closer investigation to the development of personal relationships is needed when studying evolution of a Value Network. Here the network theory of internationalisation (Johanson and Mattsson, 1988, 1992) would bring valuable insights and better understanding how these relationships can be built with foreign actors. It might also provide insights how different types of network relationships (formal, informal, and mediated) bring value (Birley, 1985; Chetty & Blankenburg Holm, 2000; Ellis & Pecotich, 2001; Ojala, 2009; Rialp et al. 2005) when reconfiguring business models when entering and operating in a foreign market.

Overall, this chapter contributes to business model literature especially in the context of digital service providers entering to foreign markets. It moves forward our understanding of requirements that firms might encounter when they enter new locations and reconfigure their business model for new markets. By doing so, this study answers to the call made by Onetti et al. (2012) by forming better understanding how locations impact business model reconfiguration.

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